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LESSONS LEARNED FROM PRIVATIZATION AT
NEWARK AFB AND THE EFFECTS OF PRIVATIZATION ON
AIR FORCES MISSIONS

by

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Preface

The very mention of Privatization stirs up the concept of saving money and doing things in the most cost efficient manner. Many communities and their elected leaders would have the American taxpayer believe that the road to riches is through shutting down military depots and keeping the production jobs on site instead of moving them to other defense depots. Keeping jobs in a community may be good politics but can have detrimental effects on military missions as it relates to excess capacity within the depot. While writing his paper, I applied the knowledge and experience I have accumulated over the years both on active duty with the Air Force and with the private sector. As a former Minuteman III ICBM Combat Crew Commander, Flight Commander, and Combat Crew Commander Instructor, I feel very qualified giving the reader information about the various weapon systems discussed in this paper. I have also spent time in the private sector working as a Business Manager for a Department of Defense (DOD) contractor. The bulk of my time was spent hiring separating/retiring active duty officers and placing them on my company's payroll doing the same job they were doing while on active duty (Outsourcing). I am also currently working as a warranted Level III Contracting Officer for the Air Force and hold a professional contracts manager certification from the National Contracts Management Association (NCMA).

Abstract

While it is clear that shrinking defense budgets demand streamlining, it is not clear whether this desire for efficiency will significantly affect combat readiness. Because of world events and legislation like Goldwater-Nichols, Air Force roles and missions continue to change and do so under great scrutiny. The effects privatization is having on Air Force missions are largely unknown. This is why it is necessary to examine lessons learned from current privatization efforts and evaluate the current impact on missions of the Air Force.

The author's intent in writing this paper is to reveal how privatization efforts at Newark Air Force Base (AFB), Ohio, have impacted the missions of the U.S Air Force. In completing his research, the author analyzed a variety of mission related criteria to include: expenditure of maintenance funds, Missile Guidance Set (MGS) delivery rates, MGS survival rates and turn around times on repaired items. The reader is also exposed to the many lessons learned from the privatization of Newark AFB. Since Newark AFB is the only operational U.S. Air Force depot to have undergone privatization to date, the focus of this paper will be on lessons learned from current activities underway at Newark AFB (now called Boeing Guidance and Meteorology Center or BGMC). The author also briefly gives the background on Kelly AFB and McClellan AFB to enlighten the reader as to what the current missions are of these two depots. The author applies lessons learned from Newark AFB to McClellan AFB and Kelly AFB to help the reader gain

insight as to what potential pitfalls lie ahead for the next two privatization efforts to be undertaken by the Air Force.

This project was needed in order to fulfill an Institute of National Security Studies (INSS) requirement to study Lessons Learned from Air Force privatization efforts and evaluate the impact on current and future Air Force missions. The methodology used to complete this study involved one-on-one interviews, on-line research conducted at the Air University Library, Maxwell AFB, Alabama and an on-site research trip to Newark AFB, Ohio to visit the Boeing facilities at the old (now inactive) Newark AFB. The methodology used best fulfills the requirement of research in the limited time available to complete this project. It is wholly appropriate for the type of research completed by the author.

The author's findings offer the reader mixed results on the impact to Air Force missions due to privatization. On one side of the question, the Air Force mission is being accomplished quicker and with equal or more reliability than under the old civilian (Newark AFB) depot system. Conversely, the cost of completing repairs has apparently increased (a disputed fact between contractor and government). When additional money is used, another mission suffers. Thus, while the author's findings point to insignificant mission impact on the operational side, there are inklings that it is costing more to complete the mission in the same manner that it was done before privatization took place.

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Chapter 1

Introduction: The Business of Privatization

One has to remember that since no state ever has more money than it needs, the high cost of maintaining depots will necessarily cut into expenditure on the armament and the size of the army

—Carl Von Clausewitz¹

What Is Privatization?

The business of privatization has long been thought of as the ace in the hole for the Department of Defense in times of downsizing. The General Accounting Office (GAO) defines Privatization as “any process aimed at shifting functions and responsibilities, in whole or in part, from the government to the private sector. The most common form of privatization is public bidding, which involves a competition among private bidders to perform government activities.”

² With public bidding, the government remains the financier and has policy control over the end products and services (Defense Contract Management Command (DCMC) oversight at the Boeing Plant in Newark AFB, Ohio is a good example). Another form of privatization is found in the bidding process by allowing government agencies to also partake in the bidding for the workload undergoing privatization. In this scenario, the winner could be a private contractor or another government agency. This is similar to what is taking place at both McClellan AFB, Sacramento, CA and Kelly AFB, San Antonio, TX. Both are undergoing privatization and both

private and governmental organizations are being permitted to bid on the workload being privatized.

To better understand privatization, we must also take a look at the historical significance of why privatization has never been popular with the senior military leadership. The viewpoints reveal an uneasy feeling among military officials with regards to the role privatization has played in the past.

Historical viewpoint of Privatization

Senior U.S. military leadership has historically held privatization in low regard due to the fact that the military's survival in wartime depends on its ability to get equipment to the war fighter in a timely manner. It has long been a concern of military officers that a depot system too dependent on private contractors would weaken the ability of the United States to respond on a sustained basis to either one or two regional conflicts within the world environment.³ This relic of cold war thinking grew out of the need to respond quickly with massive forces without the need to depend on private contractors. Even if U.S. Air Force depots were running at less than full or even half capacity, the general feeling was the control over the depot system was best left in the hands of the military. Based on both cost and risk factors, the general feeling within DOD was to rely on large repair depots to provide a cost-effective reliable source of support for wartime readiness and sustainability.⁴ With some exceptions, peacetime maintenance of weapon systems with wartime taskings was performed in DOD depots. This peacetime workload made-up the core of the depot workload and was determined by quantifying the depot work that would be generated under war scenarios and then computing the amount of peacetime work needed to employ the number of people and skills necessary to support the anticipated wartime surge. A peacetime workload was composed out of a mix of high and low surge items, which allowed

employees to transfer from low surge workload to high surge workload during war. While there was always a number of potential war scenarios, the depots have always been ready to support a sustained global war.⁵ Since the end of the cold war, it has become apparent that this mode of thinking is outdated and out of touch with reality.

DOD has known for some time that the defense infrastructure has not been shaped to match the leaner active duty force of today. The very idea of downsizing is so unpopular with politicians that most would prefer not to deal with the situation at all and leave existing depots and infrastructure in place and untouched. You could say there has been a cultural barrier surrounding the task of taking a 25 year civil servant and putting him or her on the street.⁶ The barrier is strong but it is coming down and privatization seems to be the key to bringing it down. In 1994, the Air Force proposed the privatization of the workload at Newark AFB in an effort to take the first step in reducing excess capacity in its depot repair system. Newark AFB is where the Air Force first proposed a bold new concept called Privatization-in-Place or PIP. This is a first ever for an Air Force facility and promises to be a case study for future privatization efforts throughout the Air Force.

In the next chapter we will look at the missions of Newark AFB, Kelly AFB and McClellan AFB to get an appreciation of the workload complexity at these repair centers. Privatizing depots is a task that the Air Force has but how complex are these depots?

Notes

¹ Clausewitz, Carl Von. *On War*. Princeton University, New Jersey.: Princeton University Press., 1976, 337.

² General Accounting Office. "*Privatization: Lessons Learned by State and Local Governments*." CGD-97-48. Washington D.C.: Government Printing Office. Mar 1997, 3.

³ General Accounting Office. "*Defense Depot maintenance: Commission on Roles and Mission's privatization assumptions are questionable: report to the Chairman, National Security Committee, House of Representatives*." NSIAD-96-161. Washington D.C.: Government Printing Office. July 1996, 2.

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⁴ Ibid., 2.

⁵ General Accounting Office. *"Defense Depot maintenance: DOD's policy report to congressional committees on future role of depot system."* NSIAD-96-165. Washington D.C.: Government Printing Office. May 1996, 7.

⁶ General Accounting Office. *"Outsourcing DOD Logistics: Savings achievable but Defense Science Board's projections are overstated."* NSIAD-98-48. Washington D.C.: Government Printing Office. Dec 1997, 12.

Chapter 2

Background On Privatization Missions

The fact is logistics make up as much as nine tenths of the business of War.

—Martin Van Creveld¹

Newark AFB

Newark AFB has existed since 1962 for the sole purpose of supporting the mission of the Aerospace Guidance and Metrology Center (AGMC). Newark AFB was nothing more than a large industrial complex consisting of buildings used to house depot maintenance equipment.² Absent from Newark AFB was a runway. There never was one at this sleepy small postage stamp size of an Air Base. DOD consistently assigned Newark AFB a low military value because it lacked a runway and was a single mission base.³ The base itself was originally intended to operate as a facility for stamping-out aircraft wing spars during the 1950s. This was short lived due to the fact that there was a shift toward an national defense made up of missiles instead of aircraft. Thus, the birth of AGMC and the beginning of a new and bold mission for this little known piece of real estate that even the author (who was born and reared less than 100 miles away) had never heard of until this paper.

AGMC has played a key role providing the only maintenance facility in the Air Force Logistics system capable of providing depot level repair of inertial guidance and navigation systems. The two primary missions of AGMC have been the repair of (1) ICBM Missile Guidance System (MGS) for the Minuteman weapon system/Missile Guidance Control System

(MGCS) for the Peacekeeper, and aircraft navigation systems (F-117, F-15, F-16, A-10, B-52, B-1B, KC-135, C-5A, and C-141) along with responsibility for (2) management of the Air Forces Metrology and Calibration program. Newark AFB was unique in the Air Force depot system since both product and item manager functions were located at other Air Force installations (Hill AFB and Tinker AFB) and not at Newark AFB (This is an important concept to remember since any privatization contract would require having an onsite DCMC office to cover all contract administration). In June 1993, the Base Realignment and Closure Commission (BRAC) voted to close Newark AFB along with a number of other defense installations.⁴

McClellan AFB and Kelly AFB

The other two Air Force Depots that are undergoing privatization efforts include the Sacramento Air Logistics Center (SM-ALC) located in Sacramento, California and the San Antonio Air Logistic Center (SA-ALC) in San Antonio, Texas. Both ALCs are located on McClellan AFB and Kelly AFB respectively. The SM-ALC's primary mission is the repair and overall of Space/Ground communications/electronics; overhaul of KC-135, A-10, F-117 aircraft; and repair of field generators. SM-ALC also has capabilities in advanced composites, microelectronics, Electro-optics, software, hydraulics/pneudraulics, system engineering, flexible manufacturing, and environmental management techniques. All of these current capabilities are a direct result of a \$400 million dollar investment made in facilities over the past 10 years.⁵ SM-ALC is also unique in that it has an operational nuclear reactor on-site (the only industrial nuclear reactor in DOD) that is used to x-ray the wings and fuselages of aircraft to detect minute cracks that would otherwise go undetected at other depots. The SM-ALC is known and recognized as the high technology industrial center of DOD.

Unfortunately, the SM-ALC was classified at a SUPERFUND site in the early 1980's due to the extensive pollution at the facility. The author has worked in the Environmental Division at McClellan AFB and knows first hand that clean-up costs are expected to top \$1 billion and take until the year 2035 to complete. This will certainly play a factor in the privatization effort at the base since there are numerous legal hurdles to overcome before a contractor can utilize facilities at the base.

McClellan AFB was selected for closure during the 1995 round of BRAC closure hearings. At the time, President Clinton also announced that McClellan AFB would be privatized in order to keep jobs in the Sacramento area. The current status of privatization at McClellan AFB is that it has slowed and will not be as extensive as once envisioned by President Clinton. One privatization contract was set to be released January 1998 but has been delayed until August 1998. The number of jobs that are slated for privatization is around 2000; not the 8700 once projected by the government. The other 6700 jobs will be lost to due to depot consolidation and depot workload transfer to Tobyhanna Army Depot, PA; Hill AFB, UT; Tinker AFB, OK; and Robins AFB, GA (depot consolidation will be addressed at the end of this chapter).

Kelly AFB (SA-ALC) does repair work on the C-5A/B and heavy engine repair work. SA-ALC has historically had the largest number of civilian and military personnel out of all Air Force depots. The SA-ALC performs overhaul and repair work on the F100 turbine engine, TF39 engine, T56 turbine engine, fuel accessories and engine electronics.⁶ Kelly AFB was also selected for closure/realignment during the 1995 round of BRAC closure hearings. Again, President Clinton also announced that Kelly AFB would be privatized in order to keep jobs in the San Antonio area. The SA-ALC does not have any privatization contracts in place at this time. The number of jobs to be privatized is unknown but will also be smaller than originally planned

for by the Clinton administration. The C-5 workload was locally lost when Robins AFB, Georgia, recently won the contract to do all C-5 aircraft depot maintenance at its facilities in Macon, Georgia. The workload was competed among Robins and several private contractors and Robins was deemed to be the lowest evaluated offeror⁷. This will result in the loss of several thousands jobs for the San Antonio area as people leave and follow the C-5 workload to Georgia. Now let's take a look at depot consolidation to see why it is so vital in reducing excess capacity in the depot system.

Depot Consolidation

Depot consolidation is critically important if widespread savings are ever going to be achieved in bringing down excess capacity. This is why we need to discuss Depot consolidation. The GAO states that consolidating workloads from closing two depots would allow the Air Force to achieve annual savings of over \$200 million and reduce excess depot capacity from 45 percent to 8 percent.⁸ Taking advantage of economies of scale and elimination of unnecessary duplication would mainly do this. In theory, the Air Force is doing nothing more than what has already transpired in the private sector over the last 4 to 5 years. There has already been a radical restructuring of the defense industry in the past few years with the merger of Lockheed and Martin Marietta, Northrop and Grumman Corp., Hughes Aircraft and General Dynamics Corp, etc.⁹ These companies have determined that it is in their best long term interest to merge. The Air Force has reached the same conclusion but is just now getting around to doing the job of merging its depots and Privatizing mission workload.

The C-5 workload is an important milestone in the privatization process since it is the "first" competition to be held ever since the Air Force revised its strategy to allow public-private competitions for closing depots workloads. It could be noted that the first step in reducing

excess depot capacity was taken by the Kelly AFB C-5 Contracting Officer when he allowed Robins AFB to include in its bid, a \$153 million credit in depot overhead costs. The \$153 million credit was depot savings that would be realized by the Air Force as a whole by allowing Robins AFB to factor into its bid the overhead savings resulting from absorbing the future C-5 overhead cost into its existing depot overhead cost structure.¹⁰

SA-ALC Executive Director, Edward Riojas, Jr. said it best when he stated, "Like all Americans, I was glad that the public/private competition worked. The American taxpayers and the Air Force are both winners. The tax dollars saved through this competition will make the Air Force stronger and America more secure."¹¹

What are some of the lessons learned from the privatization of Newark AFB? What has been the impact on missions of the Air Force previously performed by Newark AFB? We will explore these issues in the next two chapters to gain an appreciation of privatization.

Notes

¹ Creveld, Van Martin. *Supplying War*. Cambridge University, New York.: Cambridge University Press, 1977, 7.

² Author, notes from site visit to Newark AFB, OH, 4 March, 1998.

³ General Accounting Office. *"Aerospace Guidance and Metrology Center: Cost Growth and other factors affect closure and privatization,"* NSIAD-95-60. Washington D.C.: Government Printing Office. Dec 1994, 3.

⁴ Dynamic Research Corporation (DRC). *"Lessons Learned."* Study of lessons learned from closure of Newark AFB. Jan 1997, 5.

⁵ McClellan AFB, *"Just the facts"*, on-line, Internet, 30 Dec 1997, www.mcclellan.af.mil. Dec 1997.

⁶ General Accounting Office. *"Public-Private Competitions: DOD's Determination to Combine Depot Workloads Is Not Adequately Supported."* NSIAD-98-76. Washington D.C.: Government Printing Office. Jan 1998.

⁷ General Accounting Office. *"Public-Private Competitions: Processes Used for C-5 Aircraft Award Appear Reasonable."* NSIAD-98-72. Washington D.C.: Government Printing Office. Jan 1998.

⁸ General Accounting Office. *"Depot Maintenance: Challenges facing DOD in managing working capital funds."* NSIAD-97-152. Washington D.C.: Government Printing Office. May 1997.

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⁹ General Accounting Office. *"Defense Acquisition Organization: Linking workforce reductions with better program outcomes."* NSIAD-97-140. Washington D.C.: Government Printing Office. Apr 1997.

¹⁰ General Accounting Office. *"Public-Private Competitions: Processes Used for C-5 Aircraft Award Appear Reasonable."* NSIAD-98-72. Washington D.C.: Government Printing Office. Jan 1998, 2.

¹¹ Riojas, Edward Jr, SA-ALC Executive Director, Kelly AFB. Press release from Office of Public Affairs, 4 Sep 1997.

Chapter 3

Lessons Learned From The Air Force's First Privatization Effort: Newark AFB

We should carefully study the lessons which were learned in the past...we must put conclusions thus reached, to the test of our own experiences and absorb what is useful, reject what is useless and add what is specifically our own.

—Mao Tse-tung¹

Lessons learned from the privatization of Newark AFB can help the Air Force community at large to look at what can be expected by future privatization efforts taking place throughout the Air Force and most notably at McClellan AFB and Kelly AFB. The author is looking at Newark AFB in this paper because it is the “only” Air Force facility to undergo privatization to date. Newark AFB is the test bed for the Air Force and it is critical for the sake of future privatization that we study Newark AFB and learn everything there is regarding what happened, why it happened and what can be done differently in the future. These lessons learned are primarily from studies undertaken by the Dynamic Research Group in January of 1997 and from documented records maintained by the DCMC office at Newark AFB. The lessons learned studies were undertaken to get the most information possible out of the Air Forces first privatization effort. It is my intent here to take apart the results of their study and analyze the potential effects on the Air Force privatization efforts at McClellan AFB and Kelly AFB. Lessons learned are presented in italic format throughout this chapter.

We first need to look at the initial confusion surrounding privatizing Newark AFB and the first lesson learned:

Privatizing a base is not the same in everyone's mind. BRAC rules and regulations, and laws did not adequately define a Privatization-In-Place (PIP).²

There was little up-front planning done at the time it was decided to privatize Newark AFB. The Air Force had intended to close Newark AFB and move all of its workload to other Defense Depots. Politics intervened and played a part in going from a full closure to PIP. The idea of closing Newark AFB was very unpopular with Ohio politicians. It was political pressure from Senator Glenn's office that finally motivated then AFMC Commander General Yates to take a 100 mile drive up the road to visit Newark AFB (His first ever visit to Newark AFB despite the fact that He recommended its closure).³ It is obvious from this lesson learned that the mission can suffer at an Air Logistics Center when there is confusion in the military and local community as to what is privatization and how will it be implemented. Privatization can best be sustained when there a committed political leader (such as what President Clinton did on the Kelly AFB and McClellan AFB issues) to champion the cause and promote it. Political leaders can build internal and external support for privatization, sustain momentum for their privatization initiatives, and adjust implementation strategies.⁴ This is an important lesson for both McClellan AFB and Kelly AFB. If either base loses the support and political will of the local community leaders, privatization efforts will be lost.

Another important lesson learned involves the structure surrounding the privatization of a military installation. Many people will be involved and coordination between various base groups can become very challenging:

It is important to define a privatization structure and, within that structure, to define the roles and missions of all parties involved. It is important that all parties continuously coordinate with each other, and that any issues if questions be worked by the proper organizations within that structure. The AGMC plan did not adequately ensure that all of the "processes" (i.e., accounting, personnel, workload, facility maintenance and management) were taken into account⁵

The Privatization at Newark AFB was done by the Air Force to ensure that the workload and the workforce would remain intact at AGMC.⁶ At the time this decision was made, there were no written rules as to how to privatize a base since all rules were written with the concept of total base closure. The contracting personnel were not set up to deal with privatization or PIP and this lead to confusion during the early stages of the transfer from military installation to a private entity. AFMC did finally set-up a workload transition office at Hill AFB to handle the development of an acquisition strategy, contracting approach, release the Request for Proposal (RFP), conduct source selection and manage the on-going privatization efforts. This was new ground for all parties involved and lead to "trial and error" throughout the privatization efforts at Newark AFB.⁷ Both Kelly AFB and McClellan AFB need to address these issues during their closure. The setting up of a dedicated transition office is the best approach and this is being done both at Kelly AFB and McClellan AFB. Kelly AFB is slated to use a horizontal organizational structure called the Directorate of Privatization and Realignment⁸ This directorate will carryout all functions regarding base privatization and realignment. McClellan AFB too, has already created an organization known as the "Closure and Competition Directorate" which was designed specifically to deal with closure issues and workload competition (See appendix C). The Closure and Competition Directorate is especially designed to counter the problems that developed during the closure of Newark AFB.⁹ The directorate is split into three divisions (Closure, Competition, and Operations) in order to divide the closure process into distinct workloads so as to allow for a phasing process in the closure of this massive depot. McClellan AFB management is simply ensuring that those tasks not addressed at Newark AFB (accounting processes, personnel management, facilities operations, etc..) will be done at McClellan AFB.

The privatization at Newark AFB demonstrated the importance of establishing an organizational and analytical structure that allows for the unimpeded implementation of privatization efforts.¹⁰

Another lesson learned involves the transition of jobs and workload. This was no easy undertaking at Newark AFB as the following lesson learned depicts:

Plan for the involvement in transition activities of many government employees who have arrangements with the PIP contractor for jobs.. In addition, privatization presented an added workload challenge that needed to be supported without loss of quality or timeliness, and without relief in manpower ceilings.¹¹

Privatization strategies anticipates current government employees going to work for the PIP contractor. At AGMC, this raised the question of ethics and a program had to be developed to educate the workforce on what was legal and what was illegal. Conflicts of interests can exist in such a situation and this very same situation was present at Newark AFB. In addition, to deal with anticipated personnel shortages, AGMC conducted a risk analysis study to identify those positions that were expected to be lost and were critical during the transition.¹² From this analysis, AGMC made a list of all ex-AGMC employees they expected were capable of performing the task at hand. The list was given to those anxiety filled managers that were to be the most impacted by personnel shortages. The managers reviewed the lists, identified possible candidates to fill vacant positions (or anticipated vacant positions) and then the lists were returned to the Personnel Office on Base.¹³ The Personnel Office then contacted the individuals selected by the managers and asked them if they were interested in working at Newark AFB during the transition period. AGMC also looked at using TDY personnel from other bases along with Reservist/Active Duty personnel who possessed skills that were anticipated to be in short supply during the transition period.

The ideas discussed in the paragraph above provide valuable insight into a possible solution to the looming personnel shortages that both Kelly AFB and McClellan AFB can expect to

experience as they transgress through the closure process of their respective depots. In addition, throughout the closure process, both Kelly AFB and McClellan AFB must help employees by providing training for new jobs within the government or outside the government. In any case, an safety net is needed to ensure morale is kept high and the mission of each organization is not effected. It should be noted that there was no notable impact on the mission at Newark AFB resulting from a loss of morale during the closure process¹⁴.

The type of contract is also important in the privatization process. It has played an immense factor in the overall performance to date at BGMC:

The PIP contractor's motivation was affected by the type of contract that was awarded.¹⁵

Whether to award a Firm-Fixed Price (FFP) or a Cost-Plus-Fixed-Fee (CPFF) was a hotly debated topic in the item managers' offices at Hill AFB and Tinker AFB. To fully appreciate the uniqueness of each contract type, we need to take a moment to address the differences between the two types of contracts. For starters, a FFP contract places the greatest amount of risk on the contractor while a CPFF imposes the lowest amount of risk on a contractor. A FFP contract tends to motivate a contract in an way that would certainly be appealing to any item manager in the Air Force: It sets a basic price and whatever costs the contractor incurs are of no concern to the government; the government is simply looking for an end product and the contractor must deliver regardless of the fact that he may or may not make a profit. A FFP motivates a contractor to cut cost at every opportunity in order to maximize his profits or even make a profit. On the other end of the scale is the CPFF contract. A CPFF relieves the contractor from the possibility of losing money. A contractor knows that he will make a fixed fee on whatever costs are incurred during the performance of the contract. A CPFF contract will allow a contractor to recoup all allowable costs incurred during the contract period of

performance. The contract released by the government to cover the privatization efforts at Newark AFB was a version of the CPFF called Cost-Plus-Award-Fee (CPAF). This type of contract was chosen based on the best judgement of the Air Force officials at the time of contract award.

A CPAF contract as defined by the Federal Acquisition Regulation (FAR) is a cost-reimbursement contract that provides for payment to the contractor of a negotiated fee that is fixed at the inception of the contract. The fixed fee does not vary with actual cost, but may be adjusted as a result of changes in the work to be performed under the contract. This contract type permits contracting for efforts that might otherwise present too great a risk to contractors, but it provides the contractor only a minimum incentive to control costs.¹⁶ In addition, FAR states that a cost-reimbursement contract may be used only when: (1) the contractor's accounting system is adequate for determining costs applicable to the contract and (2) appropriate government surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are used.¹⁷ Condition (1) at BGMC is easily satisfied by the mere fact that Boeing is an established defense contractor. In addition, the presence of a on-site DCMC office fulfills the requirements of FAR (2) above and is an item that the GAO is keeping an eye on during privatization across the board:

When a governments direct role in the delivery of services is reduced through privatization, an need is created for enhanced monitoring and oversight that evaluates compliance with the terms of the privatization agreement and evaluates performance in delivering services to ensure that the government's interests are fully protected.¹⁸

Along the same lines as type of contract, we also need to address the length of the any contract awarded under privatization. This has been an issue at Newark:

Contract length not conducive to long term growth of business base for the PIP contractor. Four-year contract limits the PIP contractor's ability to bring in substantial new workloads.¹⁹

Both potential military and commercial customers are hesitant to rely on PIP contractors who are dependent on contracts with a base year and four option years. The whole set-up invites instability in both the workforce and the inflow of capital to the Newark AFB facility. The simple fact is, it is extremely risky to invest capital into a facility when the long term prospects are determined year-to-year. Having a base contract of 5 years with 5 option years would bring some additional level of stability to a facility that historical has the workload to justify the length of such a contract. The end result is increased mission stability through increased sustainability. McClellan AFB is planning on awarding a Requirements²⁰ contract that will contain "award terms" (award terms is equal to option years. McClellan is calling these years *award terms* because they will only be exercised if the contractor is performing satisfactory) instead of option years. It will have 5 base years with 3 so called "award terms" years. Kelly AFB is still in the planning stages on its privatization contracts and has not decided on contract types. It appears certain that Kelly AFB will not award a CPAF due to lessons learned at Newark AFB. The first Request for Proposal is not scheduled to be released until April 1998.

During the planning phase of privatization at Newark AFB, there was the concern that the contractors would only bid on workload that was the most profitable. This in fact was a reality when contractors actually tried to accept only work that had the most to offer to their company's bottom line profit:

Contractors at Newark AFB tried to "cherry pick" the workload and accept only that work that was deemed to be the most profitable to their company without regard to mission needs of the Air Force.²¹

When the Request for Information (RFI) was released, many potential contractors wanted to take only the most profitable workload as part of a contract with the Air Force. This was neither good business practice or in the best interest of the Air Force. At Newark AFB, it was decided

that the best solution was to have the winning contractor perform all of the work instead of just taking bits and pieces.²² This is an important lesson learned and one that is being heeded by McClellan AFB. The privatization package being put together at McClellan will involve a total package and will be awarded on an all or none basis.²³ Kelly AFB is planning the same style set-up with its privatization efforts. With the subject of workload picking, we also need to address another lesson learned from Newark AFB regarding the hiring of critical workers:

The transition should be an open planning process where the federal government assist the contractor on a daily basis, in assuming the workload. The PIP contractor hired "critical mission essential" workers from the Newark workforce without regard to mission impact.²⁴

With regards to personnel, the PIP contractor hired away too many people during the transition period and put a needless strain on the remaining workforce. The Air Force mission demands that more be done in helping people manage the change in their lives during such a period of uncertainty. To help alleviate this problem at AGMC, a list was developed of key personnel and the people on this list were released as permitted on the condition it did not jeopardize the completion of mission essential assignments.²⁵ At McClellan AFB, a unique arrangement is being made that will allow for a one year transition period to allow for the metamorphosing of personnel from the public payroll to the private payroll. McClellan is planning on starting its privatization contract on 1 Oct 1998 and will let the privatization contractor to hire people over a one year period. During this time, if McClellan AFB should require labor to perform any mission essential assignments, it would be permitted to temporarily hire contractor personnel in order to avoid any manpower shortages during this transition year. Kelly AFB could learn from this effort and pattern their transition workforce in a similar manner.

Another lesson learned stems from the transition plans of both the government and the contractor:

Government and contractor transition plans were never coordinated with each other. As a result, two separate plans developed and this lead to confusion after contract award.²⁶

The PIP contractor considered his transition plan as a very sensitive informative plan and was not thrilled with the idea of sharing his details with the government. The contractor did submit a transition plan but only the bare minimum information required by the contract.²⁷ From this action, two transition plans evolved because the two sides never got together to discuss a "master transition plan" or "joint transition plan". A smoother transition would have taken place if both sides had gone down the same path instead of two separate trails.²⁸ Impact on the mission is an increase in manpower due to the fact that double work is being done. A good point to bring up here is that jointness needs to be done in the contractual world just as it is done in the operational world. There is just not enough funding or resources to play the "We vs. Them" game. McClellan AFB and Kelly AFB are both planning joint transition plans as a direct result of the this lesson learned at Newark AFB.

The final lesson learned that needs to be addressed involves Government Furnished Property (GFM) and Government Furnished Equipment (GFE). Both of these issues caused major problems at Newark AFB and warrant further discussion in this essay. The lesson learned from Newark was:

Property inventory was a big job that had to be accomplished and planned up-front. It needed all parties and all the property and functional expertise involved. The loss of control over property resulted in confusion later on during contract performance.²⁹

Inventory accountability is still an ongoing problem is now a major dispute in cost estimates for operating the facility after privatization. Based on reports from the GAO released December 1997, the GFM inventory listing turned over to the PIP contractor was not accurate and the Air Force loss control of this GFM during the transition phase of Privatization.³⁰ This loss of

control made accurate record keeping impossible for both parties. The lack of a formal inventory of equipment has plagued BGMC ever since it took over the facility at Newark AFB. To avoid the same problems, McClellan AFB is projected to apply a Bar Coding system to inventory all equipment at the base so that an accurate inventory of equipment can be turned over to the contractor at the start of contract performance.³¹ Again, Kelly is aware of the problem at Newark and will employ similar methods to counter the fiasco at Newark AFB.

In the next chapter we will examine some actual data from BGMC and the Air Force to get a closer look on mission impact and dollars expended since privatization at Newark AFB. Mission impact is the key to whether or not privatization is working as advertised.

Notes

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⁹ Ms. Lucy Baden, Transition Planning Project Manager, McClellan AFB Closure Division. Telecom with author on 19 Mar, 1998.

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- ¹⁶ Federal Acquisition Regulation (FAR). "Contract Types." 1 Jan 1997, para 16.306.
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- ¹⁹ DCMC DAYTON-NEWARK AFB. "Lessons Learned." In house data bank of lessons learned from Newark AFB closure. Oct 97, 4.
- ²⁰ Requirements contracts (see glossary).
- ²¹ Dynamic Research Corporation (DRC). "Lessons Learned." Study of lessons learned from closure of Newark AFB. Jan 97, 55
- ²² DCMC DAYTON-NEWARK AFB. "Lessons Learned." In house data bank of lessons learned from Newark AFB closure. Oct 97, 2
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Chapter 4

Affects Of Newark AFB Privatization On Air Force Missions From A Cost And Performance Viewpoint

Service and Defense agencies must work jointly and integrate with the civilian sector, where required, to take advantage of advanced business practices, commercial economies and global networks.

—Joint Vision 2010¹

The current privatization results at Boeing Guidance Repair Center (BGMC) appear to be favorable when looking at specific statistics that have been released by BGMC. However, from a *cost* stand point, there are mixed viewpoints as to whether or not the Air Force is getting a better deal under privatization. An independent analysis of Aircraft and Missile Guidance System depot repair costs by the GAO has supported findings made by the Air Force's interim cost analysis study completed by Air Force Material Command (AFMC). Cost comparison estimates made by AFMC propose that BGMC's first year Privatization-In-Place (PIP) operating costs will be \$14.1 million higher than AGMC's historical cost for similar work (see table 1) during the time that Newark AFB operated as a government facility.² The GAO is especially critical when it comes to the use of materials at the plant. It appears that the contractor tends to sacrifice materials during the repair process in order to get the most items out the door on a monthly basis and with a corresponding increase in reliability for those very same items being repaired at the plant.³

Table 1. Results of AFMC Studies comparing estimated fiscal year 1997 organic to PIP costs for same workload (dollars in millions)

	AFMC COST ANALYSIS	
	PRE-AWARD STUDY	INTERIM STUDY
OPERATIONS		
AGMC DEPOT	\$99.8M	\$84.2M
BGMC DEPOT	\$94.8M	\$98.3M
DIFFERENCE	\$5.0M	-14.1M

It seems that the three most significant costs factors that are contributing to the increased costs at BGMC are: (1) estimated increased material cost of \$3.4 million; (2) requirement for contract administration and oversight costing \$5.5 million and (3) estimated contractor award fees of \$5.2 million.⁴ It must be noted that Boeing officials fiercely dispute these reports. Boeing believes the interim report completed by AFMC exaggerated the contractor's material consumption and failed to account for historic military construction expenditures. As a result, Boeing officials are convinced that AFMC has miscalculated the actual costs of privatizing Newark AFB. In response to this Air Force study, Boeing did its own analysis and estimated that revised FY 1997 figures disclose that the privatization price tag was \$67.2 million compared to the governments estimate of \$98.3 million for FY 1997. In addition, BGMC estimates that the government would have spent \$74.0 million if it had operated the AGMC as a government entity during FY95. BGMC calculates the Air Force is saving \$6.8 million during FY1997 by operating Newark AFB as a private installation.⁵

Table 2. Results of BGMC Studies comparing estimated fiscal year 1997 organic to PIP costs for same workload (dollars in millions)

	AGMC COSTS	BGMC COSTS
UNITS REPAIR	5480	6950
O & M(a)	\$70.5M	\$61.1M
AWARD FEE(b)	N/A	\$6.1M
TOTAL	\$70.5M	\$67.2M

INFLATION 2YRS @ 2.5% (c)	\$3.5M	N/A
PROJECTED COSTS (1997)	\$74.0M	\$67.0M

- a. O&M – Operations and Maintenance
- b. Award Fee – Applies to BGMC only
- c. Inflation – Projected inflation rate added to AGMC cost to account for time period from 1995 to 1997

There is an ongoing audit being conducted by the Air Force Audit Agency office based at Wright-Patterson AFB, Ohio. The results of this most recent audit are due out in April of 1998. This audit is attempting to determine the extent to which material consumption has increased. This audit should provide valuable cost information regarding material consumption during repair work at BGMC. Based on work conducted so far by the auditors, there are four areas of concern when looking at material consumption.⁶

- Contractor inventory records are not sufficiently complete to allow a fair determination as to the value of total inventory on hand
- Contractor inventory records do not provide an accurate basis for determining the value of inventory usage
- The contractor appears to have a greater amount of government-furnished material (GFM) than necessary for meeting existing needs
- Items to be repaired were misclassified as government-furnished material

These areas of concern lead to confusion when both sides try to sort out actual material costs. Because there was never a physical inventory of GFM prior to the start of the contract, both sides dispute the actual amount of GFM given to the contractor to be used in performance of the contract. Thus, this explains the difference in costs for both sides. In addition, the Air Force Audit Agency believes the award fee⁷ arrangement does not help the material consumption problem because it places no emphasis on minimizing the use of materials during the repair of systems at BGMC.⁸ Instead the award fee is focused more on repair turn-around times for which BGMC is doing a wonderful job. The award fee for the BGMC contract can range from 0% to

10% of the estimated contract cost. The average award fee given to BGMC for performance reviews to date has been 9.4%.⁹ Still, BGMC management believes that if they are using the same people, same procedures, same facilities and same materials, the consumption rates for repairing items must be similar as to prior years before privatization.¹⁰ The materials cost issue is an on-going issue and will take at least another 6 months to compile enough data to make a determination. At this point in time, the material consumption issue is a blow against BGMC and the type of contract (CPAF) that was put into place at the beginning of the privatization process.

Another area to analyze is *performance* since BGMC is doing so well in the award fee program. Turn around times (TAT) and reliability factors are, in fact, up since the privatization took place (see table 3 and appendix A) for the Missile Guidance Systems (MGSs) that BGMC has been renovating since 1 Oct 1996. The MGS survivor rates¹¹ depicted on the chart in appendix A clearly reveal that there has been a increase in the average survival rate for MGSs since BGMC took over the contract in 1996.¹² Furthermore, the NS20 (MGS model number) has shown a reduction in repeat rejections (failure of same component that was replaced during repair at BGMC) and a reduction in zero & and short time rejections (both deal with complete failure of a unit after repairs are made at BGMC). Both trends indicate that BGMC is matching or beating historical reliability rates for MGSs currently in the Air Force inventory. Other facts also point to a successful transition to a Privatized facility. On the ICBM side of the house, BGMC is pushing out 9.4% more Minuteman III MGS and 25% more Peacekeeper MGS units per month than AGMC was before privatization. Not only is BGMC repairing more units per month, they are doing it quicker. Table 3 below illustrates this point.

Table 3. Comparison of Units per Month and Turnaround times (TAT) for ICBM MGSs for both BGMC and AGMC

ORGANIZATION	UNITS PER MONTH	TAT PK(a)	TAT MM (b)III
FY 95 AGMC	29 UNITS	77 days	44 days
FY 97 BGMC	32 UNITS	56 days	35 days

- a. PK – Peacekeeper Weapon system
b. MM – Minuteman Weapon system

The average TAT for Minuteman III MGSs is now 35 days compared to 44 days under AGMC. The TAT for Peacekeeper has also decreased and is now 56 days under BGMC (compared to 77 days under AGMC).¹³ When all of this data is added to the reliability data shown in appendix A, a rational person could reasonably conclude that the ICBM side is much better off under privatization when just *mission essential numbers* are examined. On the basis of the information presented, there *has been no negative impact on the ICBM mission*.

The aircraft side of BGMC reflects similar data for inertial navigational systems. BGMC is delivering 28% more navigational systems per month in FY97 than AGMC was in FY 95. In addition, BGMC is exceeding required delivery schedules by 11% while keeping reliability at the same level as AGMC.

Table 4. Comparison of Units per Month for aircraft navigational systems for both BGMC and AGMC

ORGAINIZATION	UNITS PER MONTH
FY 95 AGMC	426 UNITS
FY 97 BGMC	546 UNITS

Reliability is a very weighty subject since it is a key area for military officers to focus on when evaluating the entire issue of privatization. At Tinker AFB, reliability information is maintained by item managers through the use of the REMIS¹⁴ system. REMIS is a computer database that tracks aircraft components by part numbers and records failure rates for individual

components. REMIS divides the total running time (between repairs) of various aircraft components by the total number of components repaired each year to arrive at a mean time between repairs. The information is exceedingly valuable when taken as an conglomerate since it can provide a snapshot as to how a particular component is performing in the field. Appendix B contains information collected over four calendar years (from 1994 through 1997) on eight separate aircraft components sampled at random from 84 possible components.¹⁵ As appendix B illustrates, *there is no dramatic decrease in average hours between failures of the components sampled*, which by itself is a positive factor. In addition, the trend for the majority of components sampled appears to be upward or stationary in relation to reliability factors depicted by the average hours between failures. The key factor to remember while reviewing this data is that 1997 was the first full year under privatization at Newark AFB.

Although the performance side of missile and aircraft components indicates no negative effects since privatization (even some improvement), there are mixed views in the ranks of the item managers at Tinker AFB as to how well the contractor is doing on the job under privatization. The one item that does not show up in cost-data reports is the personal effects of privatization. Before privatization, it was not uncommon for a item manager or a technician at the wing level to telephone various repair shops at AGMC to discuss faults discovered on numerous items (he or she was working on and had questions about). Now those phone calls have to be coordinated with the contracting office and carefully monitored to ensure there is no change in contractual terms and that the contractor is not being asked to perform work outside the terms of the contract. A few item managers at Tinker feel this has inhibited their ability to provide timely support to the warfighter on more than one occasion since privatization.¹⁶ Although this cannot be confirmed (the author requested supporting material to back such

claims), it is interesting to see that there is not uniform across the board support for privatization. It is almost certain that a large part of this backlash is from the perceived lack of control over the contractor's workforce. At Newark AFB, no longer do we have civil servants working hand in hand with civil servants and military members.

In the final chapter, I will address the subject of "control of the workforce" under privatization and how it appears that considerable control has shifted to the contracting office and away from the program office, item managers and even the base commander. The final chapter also consist of concluding thoughts on the important revelations unveiled in this paper.

Notes

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Chapter 5

Conclusions

As the Air Force downsizes and we privatized depot workload traditionally accomplished in-house, we will shift some of the responsibility for wartime surge capability to those in the private sector who are supporting the present day Air Force mission day in and day out.

—Gen Henry Viccello¹
Air Force Material Command

Differing opinions abound when it comes to privatization. The government has been repeatedly chastised by the GAO for not moving quicker to close Kelly AFB and McClellan AFB and moving the workload to other Air Force depots. One GAO report states the Air force is spending an additional \$500 million just to keep the two centers open until 2001 to pursue privatization efforts.² Contrary to this, General Fogleman, former Chief of Staff, Air Force, stated just before retiring that “Newark AFB is an example of PIP and we anticipate that there will be PIP at both Kelly AFB and McClellan AFB.”³ This research essay has set upon to impart to the reader another opinion of privatization.

Although there appears to be no visible change in reliability of some weapons systems now being partially maintained by private contractors, there are added costs that are existent but hard to quantify in hard numbers. The whole idea of privatization is to make a particular function cheaper.⁴ As this paper points out, this was not the case at Newark AFB. BGMC is experiencing higher costs than what was projected in 1994 when it was decided to privatized the base instead of consolidating its workload with the other depots. Although the research done by

the author suggests no significant impact on the Newark AFB mission, the Air Force seems to be just flat out paying more for the same service it received under the old depot system. This conclusion is of course based on financial information obtained from the Air Force. Boeing, as we learned from the previous chapter, provides conflicting information. Only on-going audits conducted by the Air Force Audit Agency will provide the true picture and audit results are still many months away. For now, all we can do is speculate and the author has chosen to place a greater reliability in the numbers presented by the Air Force.

In addition, the lessons learned we have addressed indicate some weak areas that must be addressed in future privatization endeavors. Such subjects as type of contract and control of government equipment were valuable lessons learned from Newark and should not be forgotten in future privatization efforts at Kelly AFB, McClellan AFB, and other bases scheduled for closure in the coming years.

Now let's take a few moments to address some final thoughts on privatization. It must be remembered that when a workload is privatized, the emphasis on the mission takes on a change. Where as before privatization, the emphasis of a facility was on meeting mission requirements, with the advent of privatization, the focus shifts toward meeting the requirements of the contract. There is no way to get around this basic premise since contractual terms dictate "contractual terms" over "actual mission needs." Although modifications to a contract can quickly be made, there are still two parties (Government and Contractor) that must agree to the changes. Privatization is a world that lives on profits. Without profits, a company could not stay in business. In addition, competition is a way of life in the private sector, so employees are always under pressure to produce more for less. So the picture is becoming very clear that our once loyal civil service workforce is now serving another master and that master is *profit*.

A final concluding thought on privatization lies with control of the workforce. In privatization we lose much of this control. As Americans we need to ask ourselves the following question: Do we as a nation, really want to privatize every function in the U.S. Air Force except that of the warfighter? How will the mission of the Air Force be affected? It is too early to tell at this point in time since privatization is still in its infancy. One fact is certain; control of supporting functions will move more and more away from installation commanders and toward the clauses contained in Air Force contracts. The Commander cannot "command" a contract. The Federal Acquisition Regulation (FAR) clearly states that only a warranted contracting officer can commit the government to a contract with a private company. No "Commander," no matter how high in rank, can perform this function. Despite this fact, the Defense Science Board (DSB) has publicly stated that "the Dept of Defense should only provide warfighting, direct battlefield oversight support, policy and decision making in conducting the defense business of the United States. All other activities should be done by the private sector at an annual savings of \$30 billion."⁵

Now, under privatization, the commander must go through the contracting officer before making contractual changes. It is readily apparent to see where the control would lie in such a world as described by the DSB. It would certainly be out of the hands of the commander.

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Appendix A

MGS Survival Rates

Appendix B

Aircraft Component Mean Repair Times

Appendix C

McClellan Closure Directorate

Glossary

ACSC	Air Command and Staff College
ACO	Administrative Contracting Officer
AFB	Air Force Base
AGMC	Aerospace Guidance and Meteorology Center
BEAT	Base Employee Assistance Team
BGMC	Boeing Guidance and Meteorology Center
BRAC	Base Realignment and Closure
CPAF	Cost-Plus-Award-Fee
CPFF	Cost-Plus-Fixed-Fee
DCMC	Defense Contract Management Command
DLA	Defense Logistic Agency
DOD	Department of Defense
FAR	Federal Acquisition Regulation
FFP	Firm-Fixed-Price
GAO	Government Audit Agency
GFM	Government Furnished Material
GSA	Government Supply Schedule
ICBM	Inter-Continental Ballistic Missile
INSS	Institution of National Security Studies
MGCS	Missile Guidance Control System
MGS	Missile Guidance Set
PIP	Privatization – In – Place
PRP	Personnel Reliability Program
REMIS	Reliability Equipment Information System
RFI	Request For Information
RFP	Request for Proposal

SA-ALC	San Antonio Air Logistic Center
SM-ALC	Sacramento Air Logistic Center
TDY	Temporary Duty
TM	Time Management
USAF	United States Air Force

Administrative Contracting Officer. A duly appointed official of a governmental agency with the warranted authority to administer all duties of contract administration as delegated by the Procuring Contracting Officer (PCO).

Cost-Plus-Award-Fee. A type of contract that allows for reimbursement of allowable and allocable costs incurred during performance of a contract with a provision to award a special fee for achievement of pre-program contract goals set during initial contract negotiations.

Fee. Fee is the amount of funding that is paid to the contractor during the course of the contract that is considered "pure profit." *Profit* is a term reserved for fixed-price contracts and *fee* is a term reserved for cost-reimbursable contracts.

Government Supply Schedule. A government contract supply system set-up to permit authorized government agencies and authorized contractors (as permitted by the ACO) to purchase goods and services from companies at pre-negotiated rates.

Missile Guidance Set (MGS) A complex targeting system designed to guide an ICBM from launch to Re-entry Vehicle (RV) release over designated target.

Personnel Reliability Program. A program set-up to ensure that only authorized and mentally stable personnel are permitted to work on or around nuclear weapons or parts thereof.

Privatization-in-Place. A form of privatization where as the contractor takes over government facilities as a condition of privatization. There is no movement of work to contractor owned facilities

REMIS (Reliability EquipMent Information System). The name of the program that maintains reliability information on all aircraft components repair and maintained by Tinker AFB, OK.

Requirement Contract. Contracts written to allow for the government to order items and services from a contractor at a pre-negotiated set price over a set period of time. There is usually a minimum order amount set so that the contractor is assured of a certain number of orders during the course of the contract.

Survival Rate. Length of time between repairs and infield failures of MGS components.

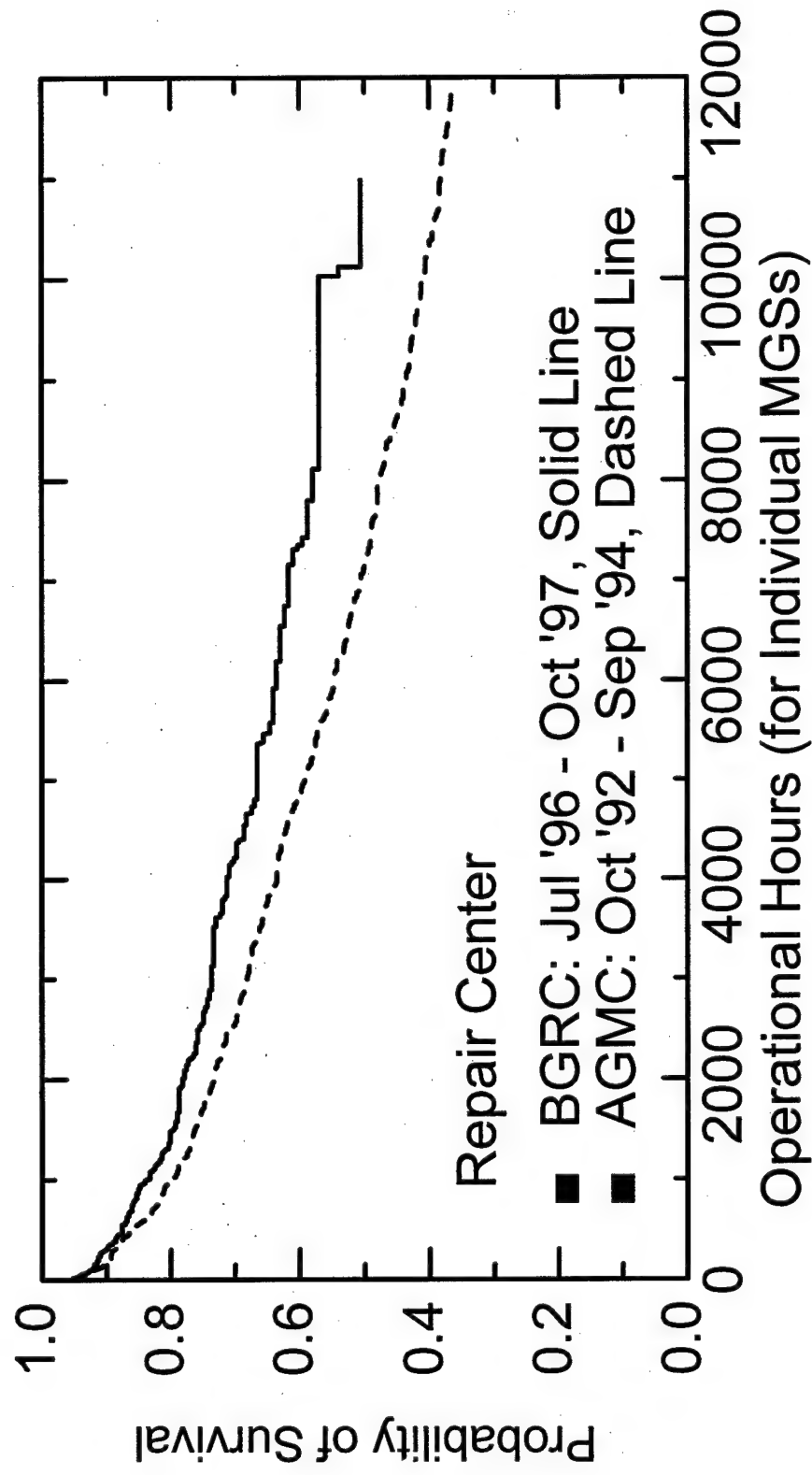
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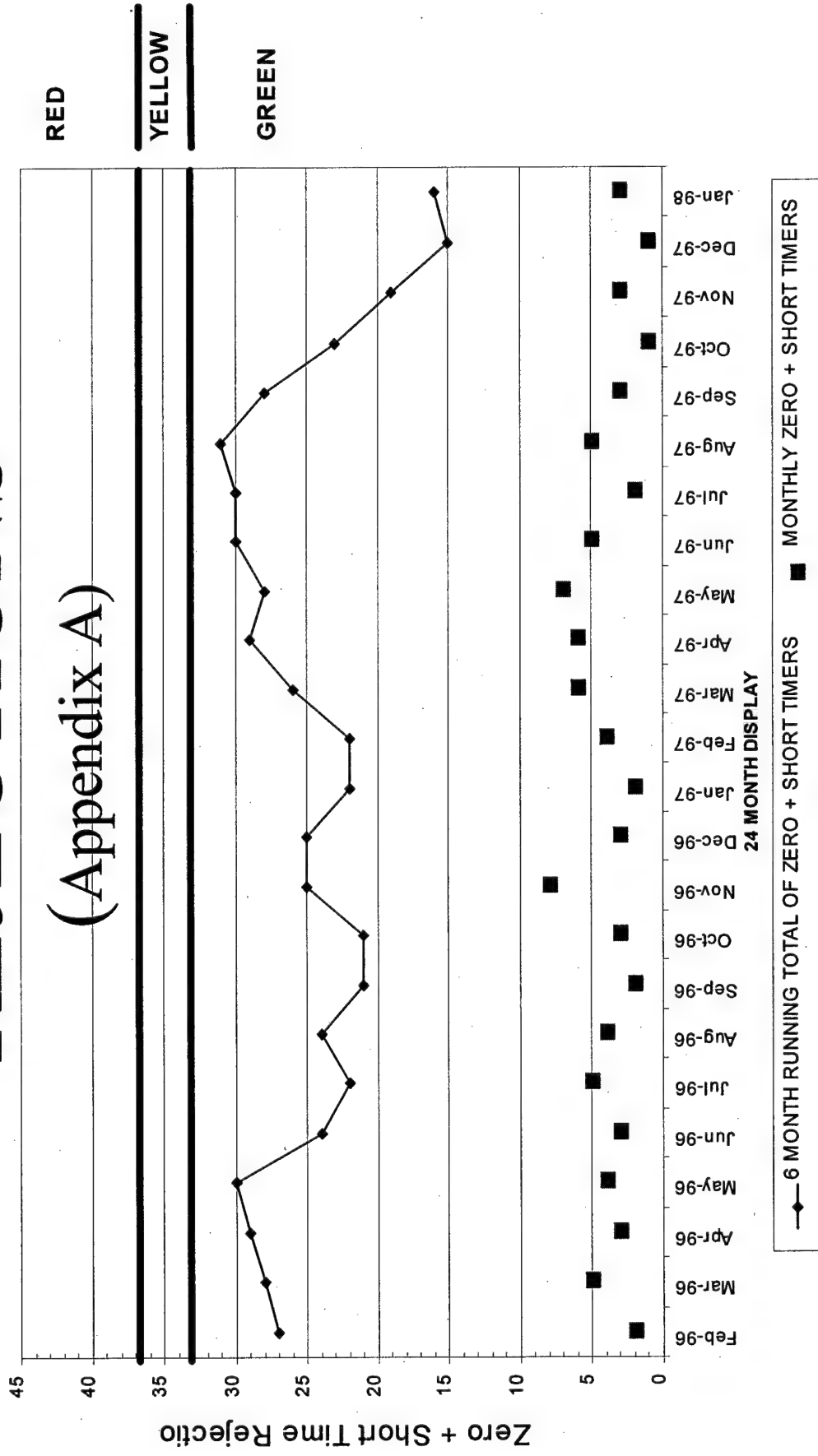
Appendix A

Survivor Rates: BGRC- vs AGMC- Repaired MGSs



NS20 ZERO & SHORT TIME REJECTIONS

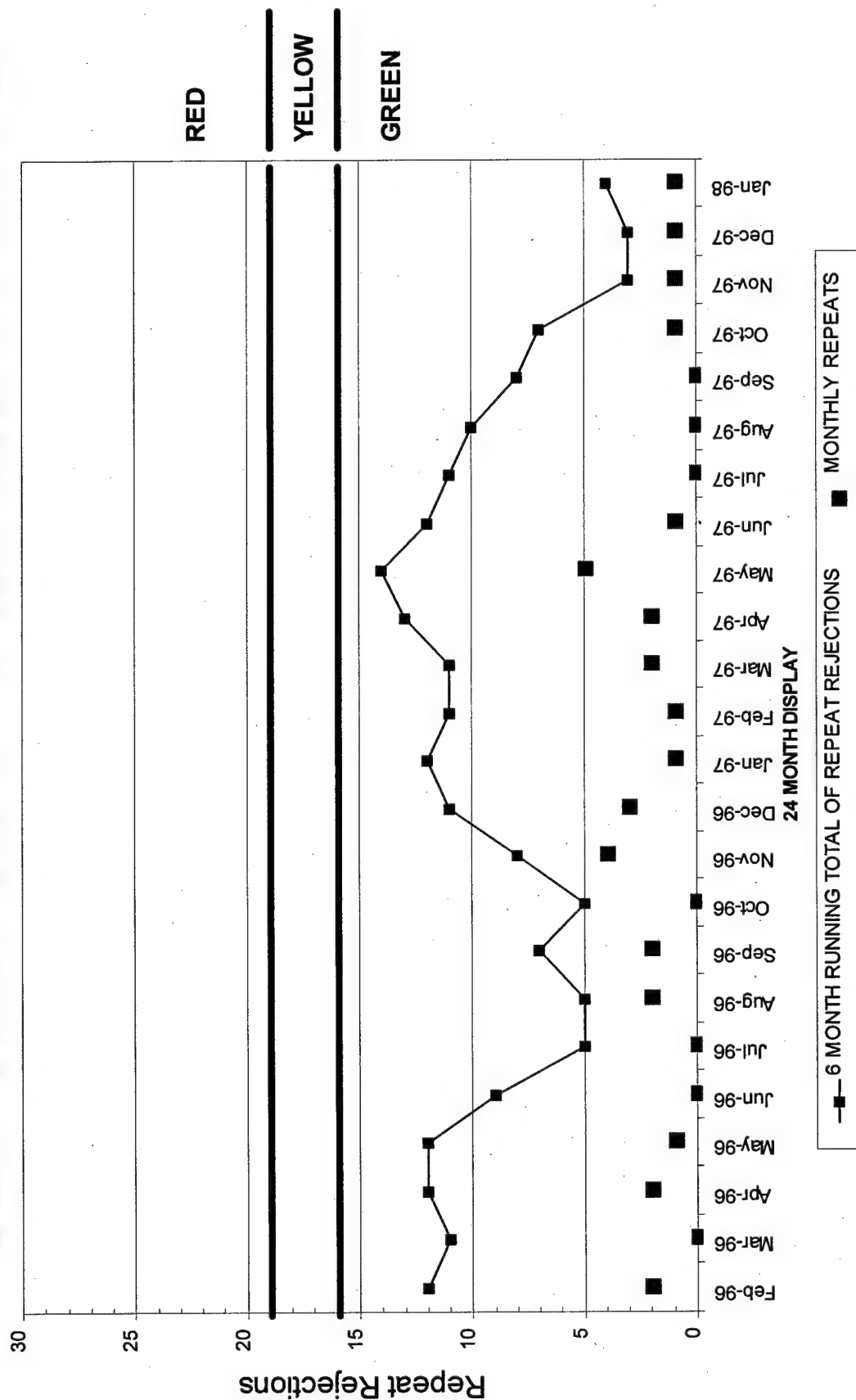
(Appendix A)



CRITERIA: AWARD FEE PLAN

Data as of 31 January 1998

NS20 REPEAT REJECTIONS



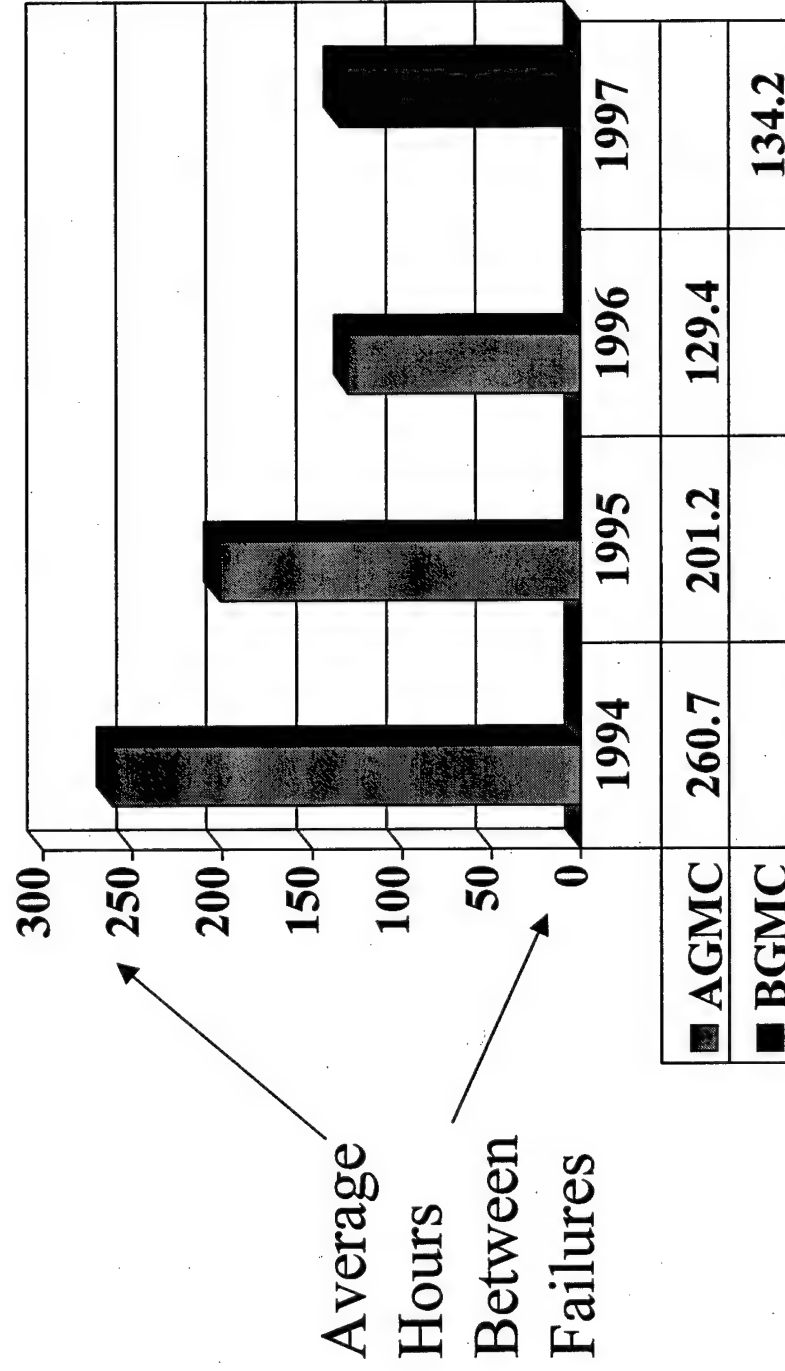
CRITERIA: AWARD FEE PLAN

Data as of 31 January 1998

Appendix B

Mean Failure Rates

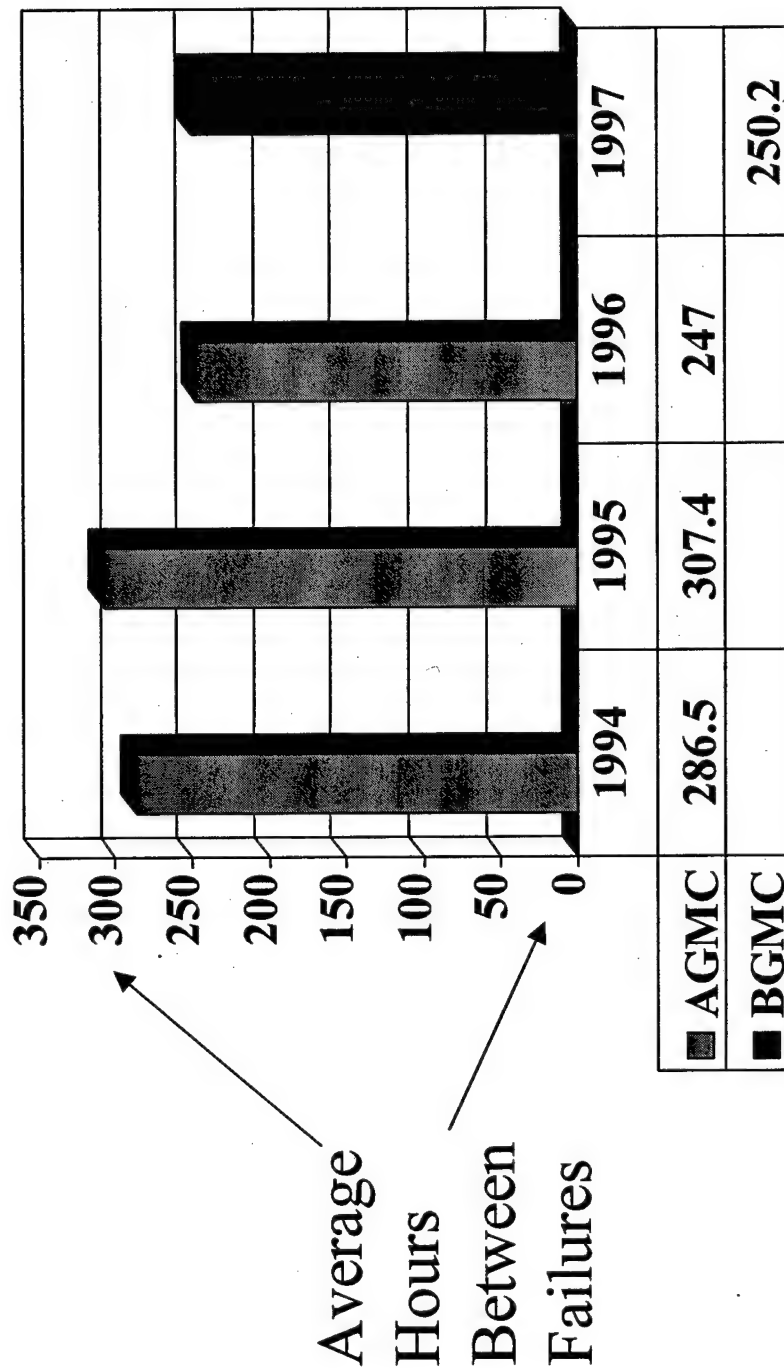
A-10A Inertial Navigational Unit



Appendix B

Mean Failure Rates

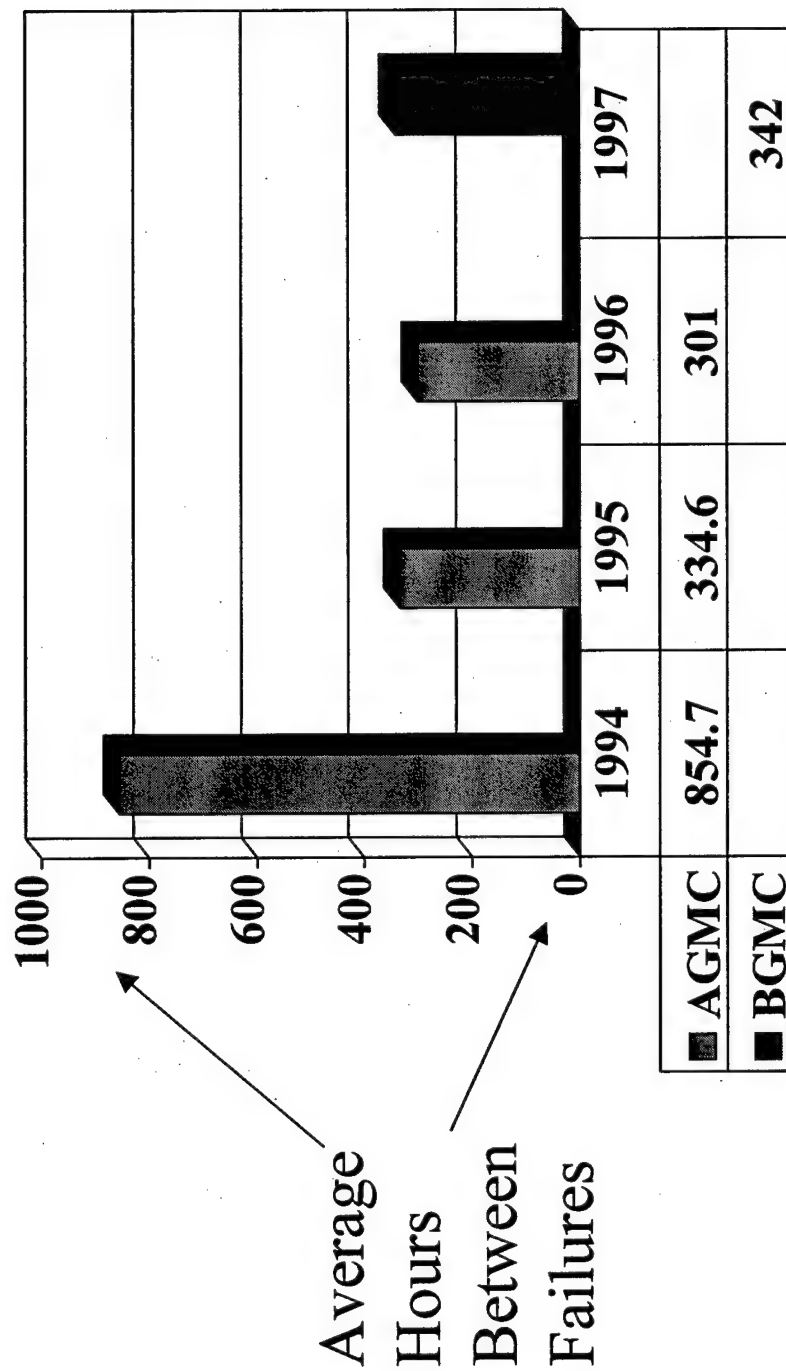
B-1B Inertial Navigational Unit



Appendix B

Mean Failure Rates

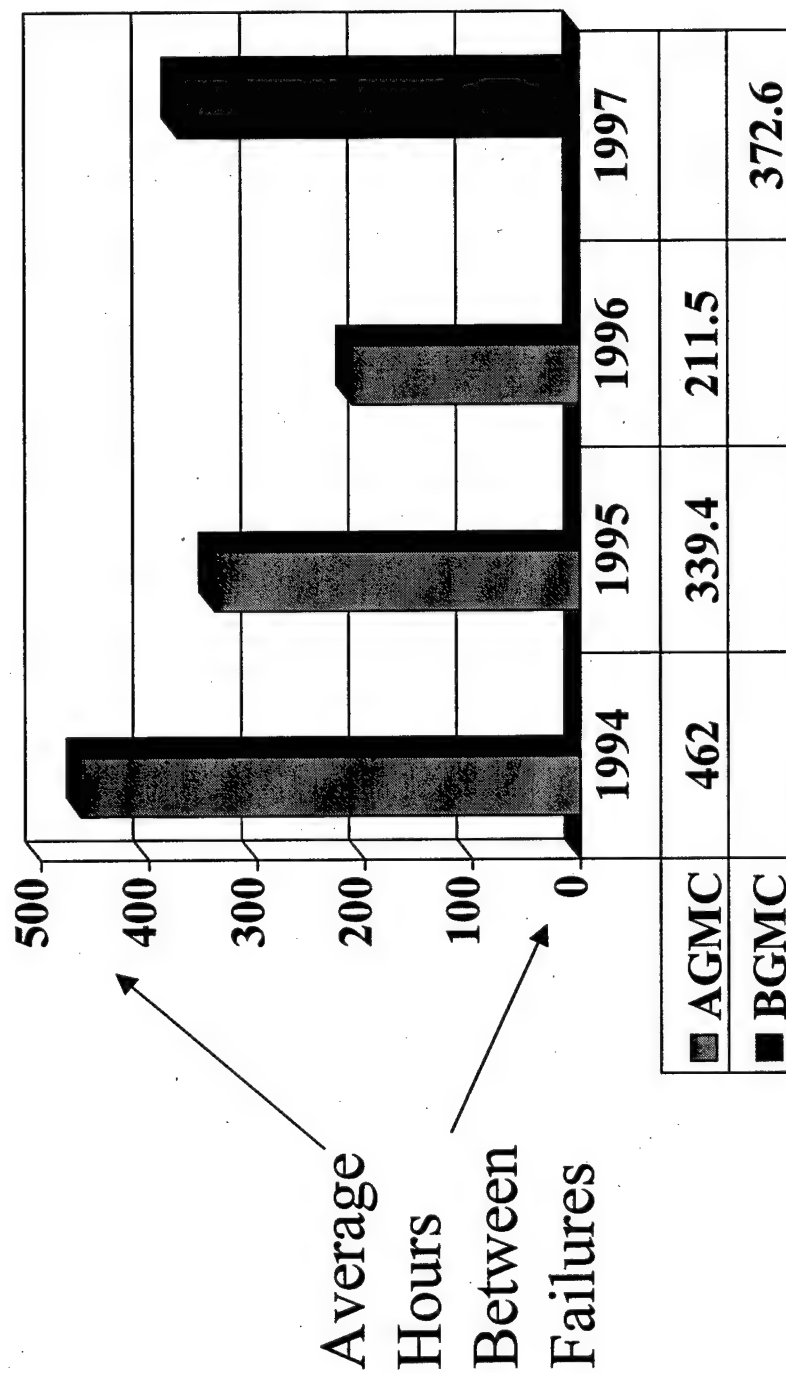
C-141B Inertial Navigational Unit



Appendix B

Mean Failure Rates

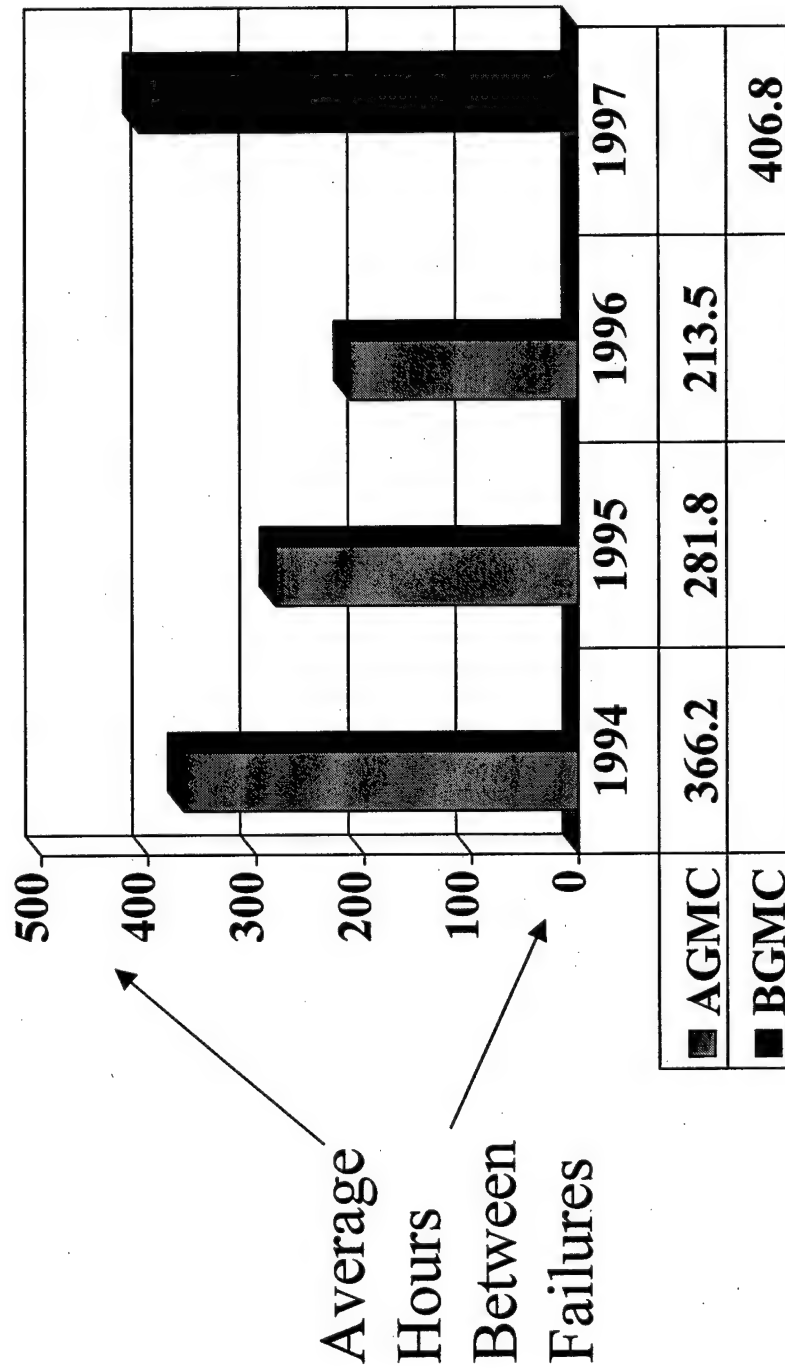
F-15D Gyroscope



Appendix B

Mean Failure Rates

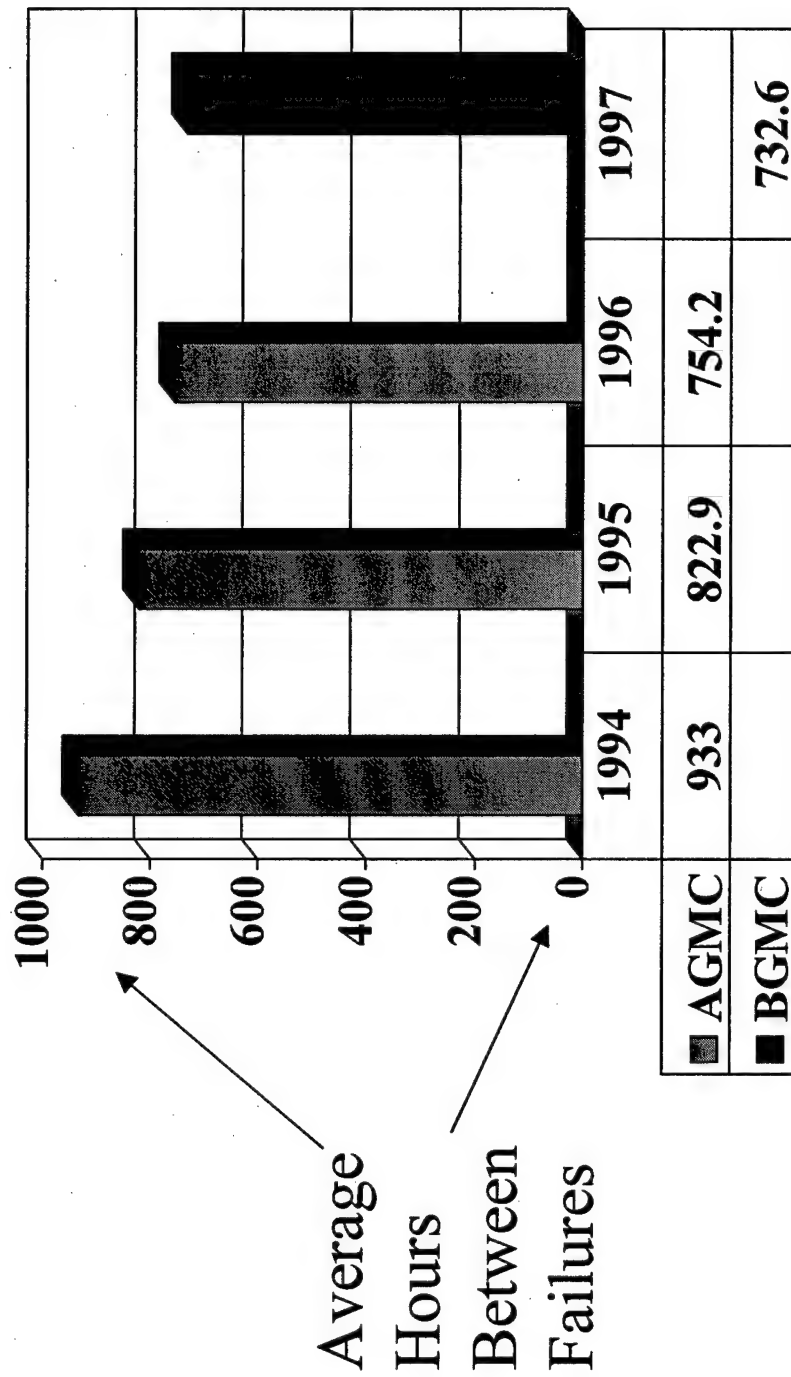
F-16C Inertial Navigational Unit



Appendix B

Mean Failure Rates

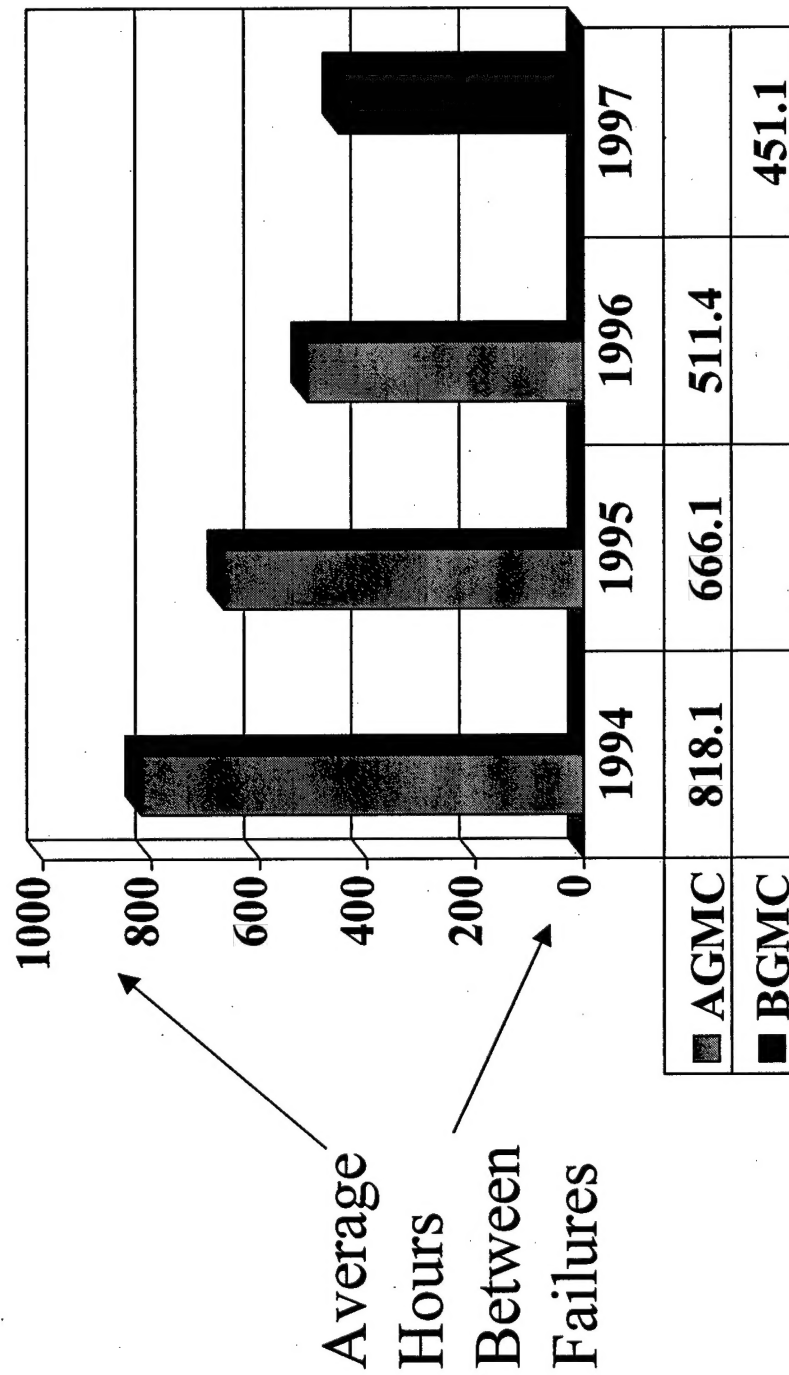
KC-135R Fuel Management Computer



Appendix B

Mean Failure Rates

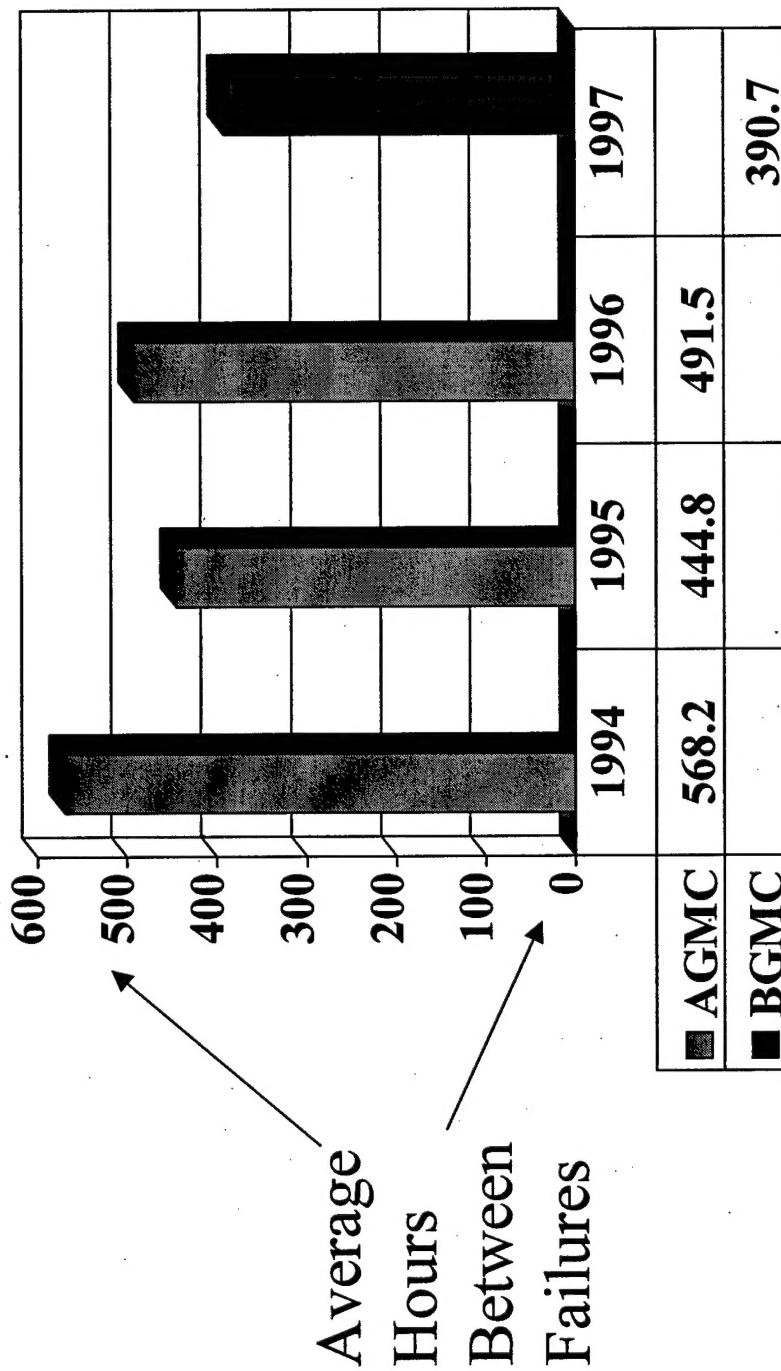
KC-135R Inertial Navigational Unit



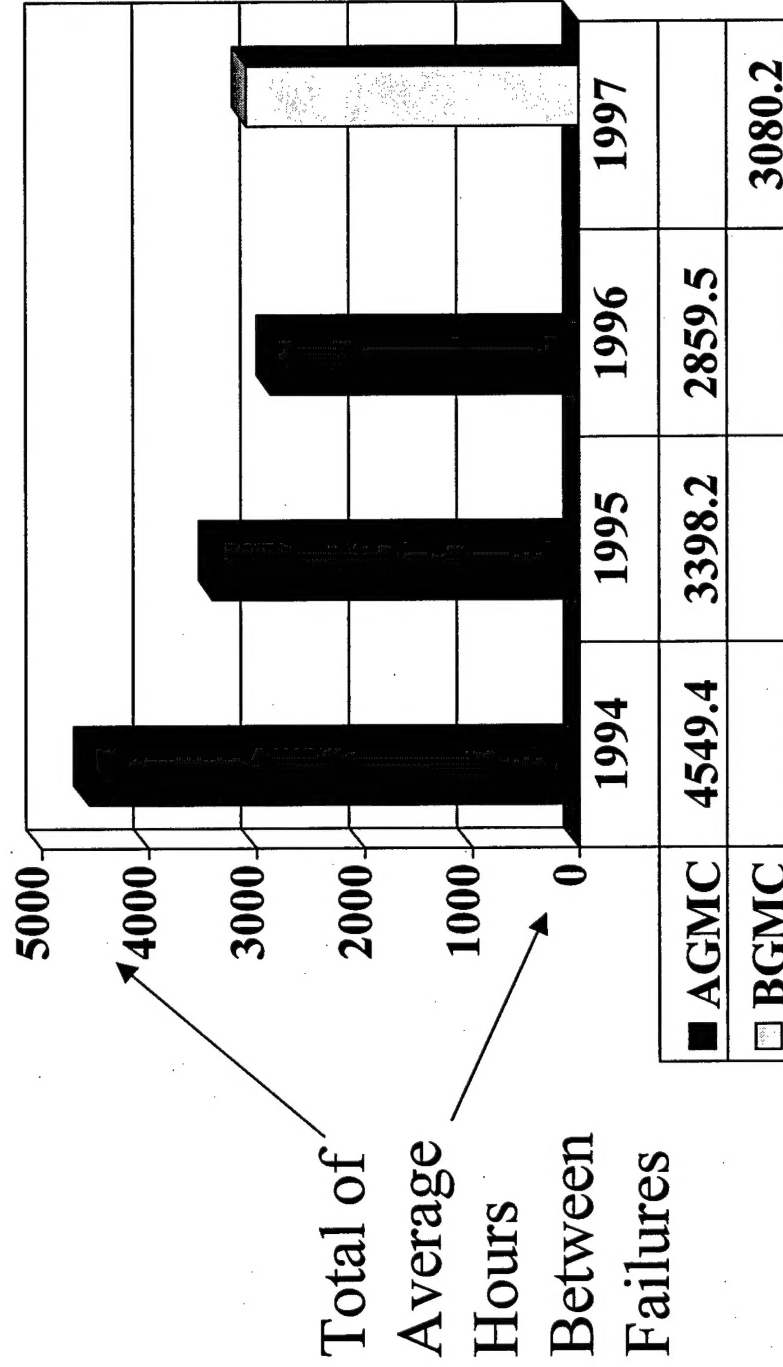
Appendix B

Mean Failure Rates

C-5A Inertial Navigational Unit



Appendix B Summary Mean Failure Rates For The 8 Aircraft Components Selected At Random



Appendix C

McCLELLAN AFB CLOSURE DIRECTORATE

